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A Study on Forensic Accounting and Fraud Investigation Techniques

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ABSTRACT

The global economy is influenced by the Indian economy. As a result, Indian marketplaces grow their operations in many ways, such as joint ventures, mergers, and consolidations. Due to the expansion of company trade, several complications also appear at the same time. Early in the twenty-first century, there were several financial scandals and white-collar crimes that called into doubt the reliability of the financial systems. These have led to a significant increase in the need for forensic accounting for the prevention and detection of fraud. The paper's primary goal is to evaluate financial frauds and white collar crimes in India and investigate various techniques of forensic accounting. This paper also focus on how forensic accounting might help keep such financial crises to a minimum. The government will also receive assistance from forensic accountants in enforcing regulatory standards.

Keywords: *Forensic Accounting, Frauds, Financial Scams, Auditing, fraud detection, Investigative functions, White coller crime*

The booming economy and quick changes at all levels of industry and society also bring several negative aspects. Financial scams are a side effect of economic expansion. A good fraud prevention programme can help to create a positive work environment where employees do not indulge themselves to abuse their responsibilities. A forensic accountant can ensure the integrity and transparency of financial statements by actively investigating for fraud, identifying areas of risk and associated fraud symptoms, and monitoring financial statements for irregularities. Therefore, by assisting businesses to avoid and identify fraud, forensic accountants may contribute to establishing. Number of financial frauds occured in all the sectors of the world economy. Starting in the late 1990s, a wave of corporate and white-color frauds started globally like Waste Management Scandal (1998), Enron Scandal (2001), WorldCom (2002), Tyco Scandal (2009), Health South Scandal (2003), Freddie Mc Scandal (2003), American Insurance Group Scandal (2005), Lehman Brothers Scandal (2008) and Bernie Madoff Scandal (2008), Satyam (2009), Olympus (2011), Toshiba (2014) etc. The growth in financial scandals at the start of the twenty-first century called into question the reliability of the organisational financial structures and the function of audit in preventing and detecting fraud. As a result, the idea that an auditor is a watchdog rather than a bloodhound has evolved. In addition to verifying that the firm's books and accounts are in accordance with GAAPs, auditing standards, and corporate regulations, auditors should also, like a bloodhound, strive to detect frauds and scams in the financial records of the organisation. "In contrast to

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auditors' sample techniques, forensic accountants aim to analyse all of the data and go beyond the figures. Cases like the overvaluation of sales or debtors become simple to examine when the expanded processes are used. As a result, forensic accounting is a speciality that combines accounting, auditing, and investigation abilities. The specialty of accounting known as "forensic accounting" is focused on the investigation and prosecution of financial fraud and other white-collar crimes. Forensic accounting has gained popularity due to an increase in financial scams, sometimes known as "white collar crimes," . Maurice E. Peloubet is known for developing the term forensic accounting in 1946.To investigate fraud and examine financial data for use in legal procedures, forensic accounting is a specialised branch of accountancy. To look into theft and fraud, forensic accounting employs auditing, accounting, and investigative abilities. It includes both investigative accounting and litigation support. A forensic audit is an investigation into the evidence supporting a claim to ascertain if it complies with predetermined standards and is conducted in a way that is acceptable to the court. The organization's high-level plan for applying its fraud prevention policy into practise is outlined in the fraud prevention strategy. An effective fraud risk management strategy includes three types of controls:

- Detect
- Prevent
- Respond

LITERATURE REVIEW

(K, 2015)

In this study, certain evidence related to fraud, forensic accounting, and the training and education of forensic investigators are presented. Additionally, some justification is given for the differing perspectives on fraud detection held by academics and authorities. I answer the query of why academic research in forensic accounting has limited value to guide policy to regulators. I also provide a wide range of problems and point out some crucial paths for forensic accounting study in the future. The goal of this article is to spark discussions and further investigation into the problems mentioned.

(Krishan Lal Grover, 2017)

The global economy is influenced by the Indian economy. As a result, Indian marketplaces grow their operations in many ways, such as joint ventures, mergers, and consolidations. Due to the expansion of commercial trade, several complications also appear at the same time. Financial scandals and numerous white-collar crimes in the legitimacy of the financial systems was questioned at the start of the twenty-first century. A result of these Forensic accounting is in high demand Forensic accounting is in high demand due to the need for fraud prevention and detection. The paper's aim is to assess financial fraud and white collar crime levels in India. This paoer also looks at forensic accounting's role in reducing such financial scandals. Additionally helpful are forensic accountants. The government is responsible for enforcing legal regulations.

(Hansa, 2022)

Investigating fraud, embezzlement, and other covert abnormalities in financial transactions is done using forensic accounting. Forensic accounting investigations are employed in court processes in a variety of circumstances. It is also used to make sure there is enough compliance to stop crimes from happening. The current descriptive study describes forensic accounting in this aspect as well as the numerous forms of frauds it may be used to uncover. In this paper use

Case examples were used to illustrate some of the ideas. Various proposals were made to reduce frauds in order to have strong governance and faithful presentation of financial information in order to preserve the interest of the stake holders in light of the rising concern over frauds in the banking industry and the recent bankruptcy episodes.

(OYEDOKUN, 2022)
This study looked for and looked into the factors that affect forensic accounting methods. Both primary and secondary sources were used to collect the data that were evaluated in this study. The 120 respondents—forensic accountants, fraud auditors, bankers, forensic investigators, financial aficionados, fraud detectives, and members of academia—were purposefully chosen. Electronic information was acquired for this study utilising a Google Form-based online survey. The study demonstrates that the methods to be used in fraud examination depend on the nature of the fraud under investigation, which includes the degree of crime committed, the amount involved, the phases, and the complexity. This study suggests that in order to regularly analyse, improve, and reassess records and internal control systems, stakeholders should engage, recruit, and use the services of a forensic accountant. Employers should educate staff members about the nature and breadth of financial crimes, as well as the legal system, fraud prevention, and ethical considerations.

OBJECTIVES
1) To analysis the various types of frauds.
2) To examine various techniques of forensic accounting.

RESEARCH METHODOLOGY:
Research Design:
The selected research design is explanatory in nature. The researcher has conducted a thorough study of the literature.

Secondary Data:
The secondary data was collected from Scholarly articles, various online journals, Research Papers, Magazine Articles, website.

Data Analysis:
The secondary data so obtained is analysed and presented in a systematic manner such as : First Part represents types of various fraud, second part represents various techniques of forensic accounting.

FRAUD
Fraud is a socially acceptable behaviour that has serious negative effects on the economy, businesses, and people. When greed and the potential for dishonesty combine, it becomes an opportunistic virus. The fraud investigator is similar to the attending doctor who monitors and listens for the warning signs and symptoms of an outbreak. The term "fraud" refers to a broad range of financial-related crimes that may include confidence tricks, forgeries of works of art, faked scientific research data, resume fabrication, false insurance claims, tax avoidance, and hundreds of other conceivable schemes. According to Rezaee (2005: 279), financial statement fraud refers to a company's intentional attempt to deceive or mislead readers of published financial statements, particularly investors and creditors. This is done by creating and publishing substantially misstated financial statements.

Reasons for frauds

A forensic auditing approach called a "fraud triangle" identifies three related problems. Constraints (motivation), Possibility (capacity to complete the job), and Rationalisation (the process of rationalising dishonesty) are all factors that contribute to the conduct of theft.

Types of Fraud

1) Bank Fraud

Bank fraud is a white-collar crime that is regularly prosecuted at the federal level since it affects the nation's financial institutions. Therefore, it has serious repercussions. Bank fraud is the theft of funds or property from a bank, financial institution, or a bank's depositors. Legally, federally insured credit unions and banks are regarded as financial entities included are Federal Reserve banks, the FDIC, mortgage lending organisations, and other financial entities that take cash or other financial assets. There are several sorts of bank fraud that can be punished under federal law. The agency performs its duties by looking into bank fraud, identity theft, fraud using automatic payment systems, cheque forgery and change, fraud involving direct deposits, and counterfeiting.

2) Corporate Fraud

The amount of money involved in corporate fraud committed by top executives of multinational corporations typically ranges into the billions of dollars. The victims of corporate fraud include customers or clients, creditors, investors, competing companies, and ultimately the offending organisation and its employees. The firm that carried out the fraud is typically left in ruins and forced to file for bankruptcy when it is discovered. Many of the funds illegally obtained through corporate theft are never recovered once the thieves have used them.

3) Insurance Fraud

Fraud occurs when a person deliberately rejects a benefit to which they are entitled or when a person intentionally pretends to obtain a benefit or advantage to which they are not otherwise entitled. If the following conditions are met, insurance fraud may be attempted as a crime: The suspect intended to defraud individuals. Insurance fraud is a "specific" purpose offence. This implies that the prosecution must demonstrate that the defendant engaged in deception on purpose. A project has been finished. A written or verbal misrepresentation to an insurer with knowledge that it is erroneous is sufficient.

4) Cyber Security

The most pervasive and serious kind of fraud that takes place globally is cyber fraud. The cyber world has developed and progressed throughout the course of the twenty-first century, making it possible for scammers to hack victims' financial and personal information in a number of ways. Fraudsters may exploit the data they collect to finance their own activities or, more concerningly, they may use it to support terrorists. Therefore, it is crucial that people and businesses understand how to defend themselves from cyber fraud. The practise of using the Internet to commit financial fraud, including phishing emails that gather personal information from unwitting recipients, fake goods being sold on eBay, email schemes where the recipient is told they are owed money if they complete some task for the sender, phoney investment schemes, and identity theft. The majority of these frauds are just internet variants of long-running, offline schemes.

5) Security Fraud
Securities fraud, sometimes referred to as stock or investment fraud, is a serious white-collar offence that can take many different forms but typically includes providing investors with false information to help them make judgements. Securities fraud is a sort of unethical or illegal behaviour that involves using asset markets or securities to make money at the cost of other people. This is an extremely serious crime that typically includes money.

6) Consumer Fraud
Consumer fraud is defined as dishonest business practises that cause clients financial or other harm. When victims are tricked, they believe they are taking part in a legitimate and legal commercial transaction. Consumer fraud is commonly linked to deceitful statements or promises made to consumers, as well as strategies that actually cheat consumers out of their money.

FORENSIC ACCOUNTING TECHNIQUES

The following among others are techniques available in forensic accounting:

1) Data Mining
Data mining is the process of using specialist software to look for irregularities, patterns, and correlations in information in order to predict results. It facilitates the extraction of hidden predictive information from large databases and can assist organisations in identifying trends, anomalies, and other strange behaviours, enabling them to take proactive knowledge-driven choices. Data mining software is particularly helpful in detecting fraud since it has scripting skills and can scan datasets from organisations for anomalies and suspicious patterns that are signs of fraud. This method is implemented using computer programmes created specifically for this task, and it relies on trying to mine a sizable volume of data in search of any new hidden or unexpected patterns or information.

2) Continuous Control
This is one of the forensic accounting techniques used to acquire evidence of fraud is continuous control. The focus of processes for continuous control is on audit divisions, branches, clients, and agency owners.

3) Ratio Analysis
Ratio analysis is used as a forensic accounting technique to assess data on a historical, sectoral, or benchmark basis. By examining data trends to find possibly fraudulent transactions, it can spot fraud. Finding the connections between different financial statement items and these items and nonfinancial data is done through ratio analysis. While a horizontal analysis examines the ratio of change in several financial statement items over a given time, a vertical analysis compares features of a financial statement to a common base item. Ratios from data analysis are used to spot fraud. Different analysts employ a variety of ratios, including utility ratios, financial ratios, and ratios for data analysis. However, forensic accountants frequently employ data analysis ratios to look for potential signs of fraud. Ratio aids in cost estimation, deviation detection, etc.

4) Computer Assisted Auditing Tools (CAATs)
CAATs are computer programs developed for the auditors. Data extraction software and financial analysis software are the two types of forensic accounting software. In order to do spreadsheet analysis on all the company's data base records, including billing, accounts receivable, payroll, buying, etc., data extraction software is built. This analysis aids in the

detection of abnormalities. Financial software examines the financial statements and compares the ratios between various accounts, such as billing to sales or supplier costs as a proportion of revenues.

5) Theory of Relative Size Factor (RSF)

The number in the data that has some relationship to the second-highest data in the number is identified using the RSF approach. According to this procedure, records that are beyond the permissible range are entered into the books of accounts and require additional examination. It draws attention to any anomalous variations that might be the result of fraud or actual mistakes.

6) Benford's Law:

It's a statistical method for figuring out if the variable under consideration represents an instance of inadvertent error or any pattern denoting suspicious movement. Benford proposed probability for the placement of each digit in the number such that, even if the data were altered, the digit in question would not always appear in the same location. Benford's Law simply identifies the potential fraud areas; it does not really identify frauds.

CONCLUSION

This study is an evaluation of types of fraud and various forensic accounting techniques which apply to fraud prevention. The most prevalent forensic accounting techniques used by expert fraud examiners, according to this survey, include data mining, ratio analysis continuous, trend analysis, computer assisted tools, expenditure trend approach, and net worth approach. Forensic accountants, forensic legal practitioners, and any other comparable parties are urged to combine two or more of the methods mentioned above since it offers them the ability to experiment with various approaches while performing forensic accounting and fraud investigations.

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Conflict of Interest

The author declared no conflict of interest.

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